# JOHANNESBURG SOCIAL HOUSING COMPANY SOC Ltd

(Registration number 2003/008063/07)
Financial statements
for the year ended 30 June 2017

## General Information

| | |
|---|---|
| **COUNTRY OF INCORPORATION AND DOMICILE** | South Africa |
| **NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES** | JOSHCO is appointed as the preferred implementing agent for social and institutional housing developments in the City of Johannesburg and to:<br>a) Manage Council owned rental stock;<br>b) Manage and refurbish staff and public hostels;<br>c) Develop new rental stock and to implement other mutually agreed housing developments; and<br>d) Provide housing management services and turnaround strategies. |
| **DIRECTORS** | Prof. Bhekisipho Twala - Chairperson<br>Mr. Anthony Ngcezula - Chief Executive Officer (Appointed 1 March 2017)<br>Mr. Success Marota<br>Dr. Lesenyego Matlhape<br>Rev. Molefi Olifant<br>Mr. Thabo Motloung (Appointed 16 March 2017)<br>Mr. Siphiwe Mhlongo (Appointed 16 March 2017)<br>Ms. Nontobeko Nyembe (Appointed 16 March 2017)<br>Mr. Moses Molefi (Appointed 16 March 2017)<br>Mr. Tumelo Mlangeni (Appointed 16 March 2017) |
| **REGISTERED OFFICE** | 137 Sivewright Avenue<br>New Doornfontein<br>2094 |
| **BUSINESS ADDRESS** | 1st and 3rd Floors<br>137 Sivewright Avenue<br>2094 |
| **POSTAL ADDRESS** | PO Box 16021<br>New Doornfontein<br>2028 |
| **BANKERS** | Standard Bank of South Africa<br>(011) 636 9111 |
| **AUDITORS** | Auditor-General of South Africa (AGSA) |
| **ACTING COMPANY SECRETARY** | Ms. Tshidi Molefe |
| **COMPANY REGISTRATION NUMBER** | 2003/008063/07 |
| **PREPARER OF FINANCIAL STATEMENTS** | These financial statements were internally prepared by the Management Accountant and reviewed by the CFO. |
| **AUDIT OF FINANCIAL STATEMENTS** | These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71of 2008 and the MFMA Act 56 of 2003 |

## General Information

The reports and statements set out below comprise the annual financial statements presented to the City Council of the Johannesburg Metropolitan Municipality:

## Director's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act, (Act 56 of 2003) (MFMA) and the Companies Act (Act 71 of 2008) to maintain adequate accounting records and are responsible for the content and integrity of the consolidated financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the consolidated financial statements fairly present the state of affairs of the company and the results of its operations and cash flows for the period and conforms with South African Statements of Generally Recognized Accounting Practice (GRAP). The AGSA is required to express an independent opinion on the consolidated financial statements and is given unrestricted access to all financial records and related data.

The consolidated financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored in the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined policies and procedures.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the company's cash flow forecast for the year ending 30 June 2017 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operation for the foreseeable future.

The entity is dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations. The consolidated annual financial statements are prepared on the basis that the company is a going concern and that the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the company.

Although the directors are primarily responsible for the financial affairs of the company, they are also supported by the company's internal auditors and by management.

The consolidated financial statements set out on pages 4 to 50, which have been prepared on the going concern basis, were approved by the directors on 30 August 2017 and were signed on their behalf by:

| | |
|---|---|
| **Prof. Bhekisipho Twala** | **Mr. Anthony Ngcezula** |
| **Chairperson** | **Chief Executive Officer** |

# Directors' Report

The directors submit their report for the year ended 30 June 2017.

## 1. INCORPORATION

The company was incorporated on 2 April 2003 and obtained its certificate to commence business on the same day.

## 2. REVIEW OF ACTIVITIES

**Main business and operations**

JOSHCO is appointed as the preferred implementing agent for social and institutional housing developments in the City of Johannesburg Metropolitan Municipality and to:

- manage council owned rental stock;
- manage and refurbish staff and public hostels;
- develop new rental stock and to implement other mutually agreed housing developments; and
- provide housing management services and turnaround strategies.

We draw attention to the fact that the substance of the Service Delivery Agreement between JOSHCO and the City of Johannesburg Metropolitan Municipality is that of an operating lease. The agreement is currently being amended to include the leasing agreement of the rental stock.

The company operates in South Africa. During the year ended 30 June 2017 there were no major changes in the activities of the business. The financial position of the company shows a net asset position of R22 104 808 (2016: R17 445 340). Net surplus of the entity was R4 659 468 (2016: surplus R4 097 861), after taxation of R679 724 ( 2016: R935 830).

## 3. GOING-CONCERN

The existence of the company is partially dependent on the continued support of its parent, The City of Johannesburg Metropolitan Municipality, by way of management fees/subsidies paid each year in terms of a service delivery agreement entered into between the company and the City of Johannesburg Metropolitan Municipality.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going-concern. The basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of the business.

We draw attention to the fact that at 30 June 2017, the company had an accumulated surplus of R22 104 688 (2016: R17 445 220), and that the company's current assets exceed its current liabilities by R132 429 590 (2016: R19 309 810).

## 4. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year, to date of this report, not otherwise dealt with in the consolidated financial statements, which significantly affect the financial position of the company or the results of its operations that would require adjustments to or disclosure in the consolidated financial statements.

## 5. DIRECTORS' PERSONAL FINANCIAL INTEREST

For the financial year under review, there have been no related party transactions that JOSHCO engaged which involved transactions with Directors of the organization. Such declarations are also made by individual directors in the official records of JOSHCO.

## 6. ACCOUNTING POLICIES

The consolidated annual financial statements were prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) as the prescribed framework by National Treasury, including any interpretations of Statements issued by the Accounting Standards Board and International Financial Reporting Standards (IFRS).

## 7. SHARE CAPITAL

There were no changes in the authorised or issued share capital of the company during the year under review.

## 8. BORROWING LIMITATIONS

The directors may authorize borrowing by the company subject to approval by the City of Johannesburg Metropolitan Municipality.

## 9. CHANGES TO ASSETS AND LIABILITIES

There were no significant changes to non-current assets and non-current liabilities.

## 10. DIRECTORS

As per resolution at the AGM on the 16th March 2017, the sole shareholder, the City of Johannesburg Metropolitan Municipality, resolved that the directors would be represented as follows:

| Names of Board Members | Membership | Effective Date |
|---|---|---|
| Prof. Bhekisipho Twala (Chairperson) | Non-Executive | Appointed 16 March 2017 |
| Mr. Anthony Ngcezula | Executive | Appointed 01 March 2017 |
| Mr. Success Marota | Executive | No Change |
| Dr. Lesenyego Matlhape | Non-Executive | Reappointed |
| Rev. Molefi Olifant | Non-Executive | Reappointed |
| Mr. Moses Molefi | Non-Executive | Appointed 16 March 2017 |
| Mr. Tumelo Mlangeni | Non-Executive | Appointed 16 March 2017 |
| Ms. Nontobeko Nyembe | Non-Executive | Appointed 16 March 2017 |
| Mr. Thabo Motloung | Non-Executive | Appointed 16 March 2017 |
| Mr. Siphiwe Mhlongo | Non-Executive | Appointed 16 March 2017 |

The following directors were retired or rotated in terms of the abovementioned resolution on the 16th March 2017:

| Names of Board Members | Membership | Effective Date |
|---|---|---|
| Ms. Zeona Jacobs | Non-Executive | Retired 16 March 2017 |
| Ms. Dereleen James | Non-Executive | Retired 16 March 2017 |
| Mr. Joel Chauke | Non-Executive | Retired 16 March 2017 |
| Ms. Buyiswa Majola | Non-Executive | Retired 16 March 2017 |
| Ms. Nosicelo Twala | Non-Executive | Retired 16 March 2017 |
| Mr. Edgar Neluvhalani | Non-Executive | Rotated 16 March 2017 within the City |

## 11. SECRETARY

The acting company secretary is Ms. Tshidi Molefe.

## 12. CORPORATE GOVERNANCE

### General

The Board of Directors are committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Directors support the highest standards of corporate governance and the on-going development of best practice.

The Johannesburg Social Housing Company SOC Ltd confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King IV Report on Corporate Governance for South Africa. The directors confer the responsibilities of management in this respect, at Board meetings and monitor the company's compliance with the code on a quarterly basis.

# Directors' Report

**Board of directors**

The Board:

- retains full control over the company, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication by the company, both internally and externally;
- is of a unitary structure comprising:
  - 8 non-executive directors, all of whom are independent directors as defined in the Code; and
  - 2 executive directors, who are the Chief Executive Officer and Chief Financial Officer.

**Chairperson and chief executive**

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

**Remuneration**

The upper limits of the remuneration of the Chief Executive Officer and all executive managers of the company are determined by the parent municipality. The Board determines the remuneration within the above-mentioned limits.

**Board and Board Sub-Committee meetings**

The board of directors has met on 14 separate occasions during the financial year. Of these meetings, 4 meetings were ordinary and 10 being special meetings to discuss urgent business matters. The directors are scheduled to attend 4 ordinary meetings per annum, being one meeting per quarter.

Non-executive directors have access to all members of management of the company.

Attendance at board and sub-committee meetings were as follows:

| Director / Member | Board | | | Corporate Support | | | Development | | | Social and Ethics | | | Audit | | | Risk | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies |
| **Number of Meetings** | 14 | | | 5 | | | 6 | | | 5 | | | 6 | | | 4 | | |
| 1. Prof. Bhekisipho Twala | 10 | 0 | 0 | - | - | - | 3 | 0 | 0 | - | - | - | - | - | - | - | - | - |
| 2. Mr. Moses Molefi * | 4 | 0 | 0 | - | - | - | 3 | 0 | 0 | - | - | - | - | - | - | - | - | - |
| 3. Mr. Tumelo Mlangeni * | 1 | 0 | 0 | 0 | - | 0 | - | - | - | - | - | - | - | - | - | 0 | 0 | 1 |
| 4. Ms. Nontobeko Nyembe * | 2 | 0 | 0 | - | - | - | - | - | - | 1 | 0 | 0 | - | - | - | - | - | - |
| 5. Mr. Thabo Motloung * | 4 | 0 | 0 | - | - | - | 3 | 0 | 0 | - | - | - | 3 | 0 | 0 | - | - | - |
| 6. Mr. Siphiwe Mhlongo * | 2 | 0 | 0 | - | - | - | - | - | - | 1 | 0 | 0 | - | - | - | - | - | - |
| 7. Mr. Anthony Ngcezula * | 6 | 0 | 0 | 1 | 0 | 0 | 3 | - | - | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 |
| 8. Rev. Molefi Olifant | 13 | 0 | 0 | 5 | | 0 | 0 | - | - | 5 | 0 | 0 | - | - | - | - | - | - |
| 9. Dr. Lesenyego Matlhape | 12 | 0 | 0 | 5 | - | - | 3 | 0 | 0 | - | - | - | - | - | - | - | - | - |
| 10. Mr. Success Marota | 7 | 0 | 0 | 5 | - | - | 5 | 0 | 1 | 4 | 0 | 0 | 6 | 0 | 0 | 3 | 0 | 1 |
| 11. Ms. Zeona Jacobs ** | 4 | 0 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12. Ms. Buyiswa Majola ** | 5 | 0 | 0 | - | - | - | - | - | - | 4 | 0 | 0 | - | - | - | - | - | - |
| 13. Mr. Joel Chauke ** | 5 | 0 | 0 | - | - | - | 3 | 0 | 0 | - | - | - | - | - | - | - | - | - |

## Directors' Report

| Director / Member | Board | | | Corporate Support | | | Development | | | Social and Ethics | | | Audit | | | Risk | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies | Attendance | Absent | Apologies |
| 14. Ms. Dereleen James ** | 4 | 0 | 1 | 4 | 0 | 0 | - | - | - | - | - | - | - | - | - | - | - | - |
| 15. Ms. Nosicelo Twala ** | 3 | 0 | 1 | - | - | - | 3 | - | - | - | - | - | - | - | - | - | - | - |
| 16. Mr. Edgar Neluvhalani *** | 4 | - | - | - | - | - | - | - | - | 4 | 0 | 0 | 3 | 0 | 0 | - | - | - |
| 17. Mr. Haroun Moolla | 8 | 0 | 0 | - | - | - | - | - | - | - | - | - | 6 | 0 | 0 | - | - | - |
| 18. Mr. Robert Hill | 5 | 0 | 0 | - | - | - | - | - | - | - | - | - | 6 | 0 | 0 | 4 | 0 | 0 |
| 19. Ms. Lulama Zabala | - | - | - | - | - | - | - | - | - | - | - | - | 6 | 0 | 0 | 1 | 0 | 0 |

* Director appointed in March 2017.
** Director retired in March 2017.
*** Director rotated in March 2017.

Following the resolution at the Annual General Meeting (AGM) on the 16th March 2017, a Board meeting was held on 20th April 2017 where the committees were reconstituted.

**Audit Committee**

In terms of Section 166 of the Municipal Finance Management Act, the City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that parent municipalities should appoint further members of the company's audit committees who are not directors of the municipal company onto the audit committee. The City of Johannesburg, as a parent municipality, was satisfied that the Audit Committee of the company is properly constituted to fulfil its role and to advise the Board of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

For the year ended 30 June 2017 the committee met 6 times and was constituted as follows:

| Director / Member | Role |
|---|---|
| 1. Mr. Haroun Moolla | Independent member and Chairperson |
| 2. Mr. Robert Hill | Independent member |
| 3. Ms. Lulama Zabala | Independent member |
| 4. Mr. Thabo Motloung | Non-executive director and Member |

**Risk Committee**

The Risk Committee was elevated to a sub-committee of the Board and met 4 times. The committee consists of the following members:

| Director / Member | Role |
|---|---|
| 1. Mr. Robert Hill | Independent member and Chairperson |
| 2. Ms. Lulama Zabala | Independent member |
| 3. Mr. Tumelo Mlangeni | Non-executive director and Member |

**Corporate Support Committee**

For the year ended 30 June 2017 the committee met 5 times and was constituted as follows:

# Directors' Report

| Director | Role |
|---|---|
| 1. Dr. Lesenyego Matlhape | Non-executive director and Chairperson |
| 2. Rev. Molefi Olifant | Non-executive director and Member |
| 3. Mr. Tumelo Mlangeni | Non-executive director and Member |

**Development Committee**

For the year ended 30 June 2017 the committee met 6 times and was constituted as follows:

| Director | Role |
|---|---|
| 1. Mr. Moses Molefi | Non-executive director and Chairperson |
| 2. Mr. Thabo Motloung | Non-executive director and Member |
| 3. Dr. Lesenyego Matlhape | Non-executive director and Member |

**Social and Ethics Committee**

For the year ended 30 June 2017 the committee met 5 times and was constituted as follows:

| Director | Role |
|---|---|
| 1. Rev. Molefi Olifant | Non-executive director and Chairperson |
| 2. Mr. Tumelo Mlangeni | Non-executive director and Member |
| 3. Ms. Nontobeko Nyembe | Non-executive director and Member |
| 4. Mr. Siphiwe Mhlongo | Non-executive director and Member |

**Internal audit**

The company has outsourced its internal audit function to OMA Chartered Accountants Incorporated. The role of internal audit is in accordance with Section 165 of the Municipal Finance Management Act, (Act 56 of 2003).

## 13. ECONOMIC ENTITY

The company's parent municipality is The City of Johannesburg Metropolitan Municipality established in South Africa, in terms of the Municipal Systems Act.

## 14. INTEREST IN JOINTLY CONTROLLED ENTITIES

| *Name of Jointly controlled entity* | *Net* Surplus |
|---|---|
| JOSHCO Madulammoho Joint Venture (JMJV) | R495 922 |

The main transactions between JOSHCO and the JMJV were accounts receivable in respect of provincial subsidies payable by the JMJV to JOSHCO. JOSHCO has also accounted for its 55% share of the surplus from the joint venture in the consolidated financial statements amounting to R495 922 (2016: -R58 379).

## 15. SPECIAL RESOLUTIONS

The company did not pass any special resolutions during the current year.

## Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

**Audit committee members and attendance**

The audit committee consist of the members listed hereunder and they have met 6 times during the year.

| Names of members | Audit Committee | | |
|---|---|---|---|
| | Attendance | Absent | Apologies |
| **Number of Meetings** | 6 | | |
| 1. Mr. Haroun Moolla | 6 | 0 | 0 |
| 2. Mr. Robert Hill | 6 | 0 | 0 |
| 3. Ms. Lulama Zabala | 6 | 0 | 0 |
| 4. M. Thabo Motloung # | 3 | 0 | 0 |
| 5. Mr. Edgar Neluvhalani * | 3 | 0 | 0 |

**# Member appointed in March 2017.**
*** Member rotated in March 2017.**

**Audit Committee responsibility**

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2) (a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

**The effectiveness of internal control and risk management**

The system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent in line with the MFMA and the King III Report on Corporate Governance. Internal audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General of South Africa (AGSA), it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted were in terms of the MFMA and the Division of Revenue Act.

We are satisfied with the content and quality of quarterly internal audit reports prepared and issued by the Internal Auditors of the entity during the year under review.

**Evaluation of financial statements**

We have:

- reviewed and discussed the financial statements to be included in the annual report, with the AGSA and management.
- reviewed the AGSA's management report and management's response thereto*;
- reviewed the applicable accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

We concur with and accept the AGSA's report on the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

**Internal audit**

We are satisfied that the outsourced internal audit function is operating effectively and that it has addressed the risks pertinent to the entity and its audits.

## Audit Committee Report

**Auditor-General of South Africa**

The audit committee has met with the Auditor-General of South Africa to ensure that there are no material unresolved issues. We are satisfied that the auditor is independent of the company.

**Mr. Haroun Moolla**
**Chairperson**

# Company Secretary's Certification

**Declaration by the company secretary in respect of Section 88(2) (e) of the Companies Act**

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

**Ms. Tshidi Molefe**
**Acting Company Secretary**

## Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 2 | 748 047 | 223 528 |
| Loans to parent municipality | 3 | 89 845 965 | 150 894 333 |
| Current tax receivable | 32 | - | 335 273 |
| Receivables from exchange transactions | 5 | 195 039 350 | 242 496 392 |
| VAT receivable | 16 | 3 470 746 | 2 803 778 |
| Cash and cash equivalents | 6 | 94 106 782 | 12 472 029 |
| | | **383 210 890** | **409 225 333** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 7 | 4 150 846 | 4 633 918 |
| Intangible assets | 8 | 590 567 | 551 694 |
| Investment in joint venture | 9 | 24 138 411 | 24 192 489 |
| Deferred tax | 11 | 11 518 745 | 7 954 307 |
| | | **40 398 569** | **37 332 408** |
| **Total Assets** | | **423 609 459** | **446 557 741** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Borrowings – DBSA | 12 | 805 544 | 741 662 |
| Current tax payable | 32 | 2 549 441 | - |
| Finance lease obligation | 13 | 254 391 | 387 514 |
| Operating lease liability | 4 | 54 436 | 73 985 |
| Payables from exchange transactions | 14 | 244 472 152 | 385 921 358 |
| Deferred income from non-exchange transactions | 17 | 913 993 | 913 993 |
| Provisions | 15 | 1 731 343 | 1 877 011 |
| | | **250 781 300** | **389 915 523** |
| **Non-Current Liabilities** | | | |
| Borrowings - DBSA | 12 | 15 105 447 | 15 910 991 |
| Finance lease obligation | 13 | - | 214 907 |
| Deferred income from non-exchange transactions | 17 | 135 617 904 | 23 070 987 |
| | | **150 723 351** | **39 196 885** |
| **Total Liabilities** | | **401 504 651** | **429 112 408** |
| **Net Assets** | | **22 104 808** | **17 445 340** |
| **Net Assets** | | | |
| Share capital | 19 | 120 | 120 |
| Accumulated surplus | | 22 104 688 | 17 445 220 |
| **Total Net Assets** | | **22 104 808** | **17 445 340** |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| Rendering of services (Exchange transaction) | 20 | 9 272 579 | 8 620 252 |
| Rental facilities (Exchange transaction) | 20 | 110 777 554 | 102 355 268 |
| Utility Recoveries (Exchange transaction) | 20 | 186 387 | 681 704 |
| Other income (Exchange transaction) | 20 | 751 381 | 1 719 577 |
| Bad debts recovered (Exchange transaction) | 20 | - | 12 390 |
| Interest received (Exchange transaction) | 26 | 11 853 226 | 5 800 274 |
| Dividends received (Exchange transaction) | 26 | 550 000 | 550 000 |
| Government grants & subsidies | 20 | 13 100 000 | 19 952 000 |
| Capital grants realised | 20 | 913 993 | 913 993 |
| **Total revenue** | | **147 405 120** | **140 605 458** |
| **Expenditure** | | | |
| Governance & employee costs | 22 | (37 706 207) | (36 709 974) |
| Other housing management costs | 25 | (13 767 310) | (14 552 087) |
| Depreciation and amortization | 27 | (1 249 067) | (1 062 316) |
| Finance costs | 28 | (1 384 448) | (1 448 662) |
| Contracted services | 30 | (1 335 429) | (1 375 867) |
| General Expenses | 21 | (87 878 237) | (79 814 483) |
| **Total expenditure** | | **(143 320 698)** | **(134 963 388)** |
| **Operating surplus** | | **4 084 422** | **5 642 070** |
| Fair value adjustments - JMJV | | (550 000) | (550 000) |
| Profit/(Loss) from investment - JMJV | | 495 922 | (58 379) |
| Loss on disposal of assets | | (50 600) | - |
| | | **(104 678)** | **(608 379)** |
| **Surplus before taxation** | | **3 979 844** | **5 033 691** |
| Taxation | 29 | 679 724 | (935 830) |
| **Surplus for the year** | | **4 659 468** | **4 097 861** |

## Statement of Changes in Net Assets

| Figures in Rand | Note(s) | Share capital | Accumulated surplus | Total Net Assets |
|---|---|---|---|---|
| **Restated balance at 01 July 2014** | | **120** | **11 758 967** | **11 759 087** |
| Surplus for the year | | - | 1 588 392 | 1 588 392 |
| **Balance at 01 July 2015** | | **120** | **13 347 359** | **13 347 479** |
| Prior period error | 41 | | - | - |
| Surplus for the year | | - | 4 097 861 | 4 097 861 |
| **Balance at 01 July 2016** | | **120** | **17 445 220** | **17 445 340** |
| Changes in net assets | | | | |
| Surplus for the year | | - | 4 659 468 | 4 659 468 |
| **Balance at 30 June 2017** | | **120** | **22 104 688** | **22 104 808** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 121 056 914 | 106 739 689 |
| Grants | | 13 100 000 | 19 952 000 |
| Interest income | | 11 853 226 | 5 800 274 |
| Dividends received | | 550 000 | 550 000 |
| Other income | | 19 814 956 | 10 339 829 |
| | | 166 375 096 | 143 381 792 |
| **Payments** | | | |
| Employee costs | | (38 143 329) | (36 638 395) |
| Suppliers | | (104 315 781) | (57 687 193) |
| Finance costs | | (1 384 448) | (1 448 662) |
| Taxes paid | 32 | - | (1 940 689) |
| | | (143 843 558) | (97 714 939) |
| **Net cash flows from operating activities** | 31 | **22 531 538** | **45 666 852** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (669 779) | (1 992 678) |
| Purchase of other intangible assets | 8 | (190 885) | (338 146) |
| **Net cash flows from investing activities** | | **(860 664)** | **(2 330 824)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings - DBSA | | (741 662) | (678 781) |
| Proceeds from shareholders loan | | 61 048 368 | (79 909 121) |
| Finance lease payments | | (483 535) | (427 083) |
| Deferred income | | 140 708 | (1 744 740) |
| **Net cash flows from financing activities** | | **59 963 879** | **(82 759 725)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **81 634 753** | **(39 423 697)** |
| Cash and cash equivalents at the beginning of the year | | 12 472 029 | 51 895 726 |
| **Cash and cash equivalents at the end of the year** | 6 | **94 106 782** | **12 472 029** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions 50** | | | | | | |
| Rendering of services | 12 070 000 | - | **12 070 000** | 9 272 579 | **(2 797 421)** | |
| Rental facilities and equipment | 110 696 000 | - | **110 696 000** | 110 777 554 | **81 554** | |
| Recoveries | 560 000 | - | **560 000** | 186 387 | **(373 613)** | |
| Other income | - | 717 000 | **717 000** | 751 381 | **34 381** | |
| Interest received - investment | 2 711 000 | 4 084 000 | **6 795 000** | 11 853 226 | **5 058 226** | |
| Dividends received | 550 000 | - | **550 000** | 550 000 | - | |
| **Total revenue from exchange transactions** | **126 587 000** | **4 801 000** | **131 388 000** | **133 391 127** | **2 003 127** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 12 888 000 | 212 000 | **13 100 000** | 13 100 000 | - | |
| Capital grants realised | - | - | - | 913 993 | **913 993** | |
| **Total revenue from non-exchange transactions** | **12 888 000** | **212 000** | **13 100 000** | **14 013 993** | **913 993** | |
| **Total revenue** | **139 475 000** | **5 013 000** | **144 488 000** | **147 405 120** | **2 917 120** | **Note 40** |
| **Expenditure** | | | | | | |
| Governance and staff costs | (37 337 000) | (1 082 000) | **(38 419 000)** | (37 706 207) | **712 793** | |
| Other project costs | (10 897 884) | (2 489 000) | **(13 386 884)** | (13 767 310) | **(380 426)** | |
| Depreciation and amortisation | (1 116 000) | - | **(1 116 000)** | (1 249 067) | **(133 067)** | |
| Finance costs | (1 472 000) | - | **(1 472 000)** | (1 384 448) | **87 552** | |
| Contracted Services | (1 643 000) | - | **(1 643 000)** | (1 335 429) | **307 571** | |
| General Expenses | (85 509 116) | (1 442 000) | **(86 951 116)** | (87 878 237) | **(927 121)** | |
| **Total expenditure** | **(137 975 000)** | **(5 013 000)** | **(142 988 000)** | **(143 320 698)** | **(332 698)** | |
| **Operating surplus** | **1 500 000** | - | **1 500 000** | **4 084 422** | **2 584 422** | |
| Loss on disposal of assets | | | | (50 600) | (50 600) | |
| Fair value adjustments - JMJV | - | - | - | (550 000) | **(550 000)** | |
| Share of surpluses or deficits from associates or joint ventures accounted for using the equity method | - | - | - | 495 922 | **495 922** | |
| | | | | **(104 678)** | **(104 678)** | |
| **Surplus before taxation** | **1 500 000** | - | **1 500 000** | **3 979 744** | **2 479 744** | |
| Taxation | **1 500 000** | - | **1 500 000** | 679 724 | 2 179 724 | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | - | - | - | **4 659 468** | **4 659 468** | |

# Accounting Policies

## 1. Presentation of Consolidated Financial Statements

The annual consolidated financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standard Board (ASB). In the absence of effective Standard of GRAP, Directive 5 dated March 2009 from the ASB provides the continued application of International Financial Reporting Standards (IFRS). The recognition and measurements principles in the GRAP and IFRS statements do not differ as a result in material differences in items presented and disclosed in the financial statements. The annual consolidated financial statements are prepared on the historical cost basis except where otherwise stated and accounting policies applied are consistent with the application in previous years except where otherwise stated.

### 1.1 Going concern assumption

These consolidated financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

### 1.2 Consolidation

**Interests in joint ventures**

The Joint venture relates to the BG Alexandra property of which the shareholding is as follows:

| | |
|---|---|
| - JOSHCO SOC Ltd | 55% |
| - Madulammoho (Pty) Ltd | 45% |
| Total | **100%** |

Madulammoho (Pty) Ltd have a 35-year lease over the property BG Alexandra from Gauteng Provincial Department of Human Settlements, which commenced in September 2006. JOSHCO through its shareholders, has obtained capital funding to renovate the property and to which the leasehold improvement must be depreciated over the remaining period of the lease.

An interest in a jointly controlled company is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with Standard of GRAP on non-current asset held-for-sale and discontinued operations. Under the equity method, interest in jointly controlled entities are carried in the consolidated statement of financial position at a cost adjusted for post-acquisition changes in the company's share net assets of the company, less any impairment losses. surpluses and deficits on transactions between the company and a joint venture are eliminated to the extent of the company's interest therein.

### 1.3 Significant accounting judgements and key sources of estimation

In the application of the accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods:

**Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets that are held for use in the production or supply of goods and services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity: and
- the cost of the item can be measured reliably.

# Accounting Policies

### 1.4 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The following factors were considered to determine the useful life of the assets:
- Expected usage of the asset;
- Expected physical wear and tear of the asset;
- Technical obsolescence; and
- Legal or other limits on the use of the asset

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (i.e. impairment losses are recognised). Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

The residual value and the useful life of each asset are reviewed at each reporting date. The useful life of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
| --- | --- |
| Land | Indefinite |
| Leasehold property | Lower of the Lease Period or useful life (3 - 5 Years) |
| Furniture and fixtures | 5 - 8 Years |
| Motor vehicles | 5 - 8 Years |
| Office equipment | 5 - 8 Years |
| IT equipment | 5 - 8 Years |
| Leasehold improvements | Lower of the Lease Period or Useful life 3 Years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectation s differs from the previous estimates, the change is accounted for as a change in accounting estimate.

The useful life of technological assets such as computers are set at R1 as these items are expected to have negligible sales value at the end of its useful life.

The residual value of all other assets with a cost less that R5 000 are estimated at 10% of the cost as this is appropriately the maximum amount expected to be at the end of its useful life.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability;
- arises from the contractual rights or other legal rights, regardless whether those rights are transferable or separate from JOSHCO or from other rights and obligations.

### 1.5 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Amortisation commences when the intangible assets are ready for their intended use.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortization method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

| Item | Useful life |
| --- | --- |
| Computer software | 3 - 8 Years |
| Other intangible assets | 3 - 7 Years |

### 1.6 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants (including capital grants) are recognised when there is reasonable assurance that:
- the company will comply with the conditions attaching to them; and
- the grants will be received.

A government grant that becomes receivable as compensation for expenses or deficit already incurred or for the purpose of giving immediate financial support to the company with no future relates costs is recognised as income of the period in which it becomes receivable.

Capital grants are recorded as deferred income when they become receivable and are recognised as income on a systematic basis over the periods necessary to match grant with the related costs, which they are intended to compensate. Capital grants on infrastructure property, plant an equipment are credited on a straight-line basis to the Statement of Financial Performance based on the estimated useful life of the relevant infrastructure property, plant and equipment.

### 1.7 Financial instruments

Financial assets and financial liabilities are recognised on JOSHCO's statement of financial position when the entity becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are initially recognised using trade date accounting. Financial instruments are initially measured at fair value, which includes transaction costs. Subsequent to initial recognition the instruments are measured as set out below:

**Financial assets**

JOSHCO's principle financial assets are Loans to group companies, accounts and other receivables, and cash and cash equivalents.

At each end of the reporting period the company assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

## Accounting Policies

**1.7 Financial instruments (continued)**

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

**Loans to / (from) group companies**

These include loans to parent municipality, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortized cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognized in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**Accounts and Other receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the allowance is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against operating expenses in surplus or deficit.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

**Financial liabilities**

JOSHCO's principle financial liabilities are Loans from group companies, accounts and other payables and interest-bearing borrowings & overdraft.

All financial liabilities are measured at amortised cost, comprising original debts less principle payments and amortisations, except for financial liabilities held for trading and derivative liabilities, which are subsequently measured at fair value.

**Loans to / (from) group companies**

As noted in the financial assets above.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### 1.7 Financial instruments (continued)

**Accounts and other payables**

Accounts and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rates method.

**Interest bearing borrowings and overdraft**

Interest bearing borrowings and overdraft are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

**Gains and losses**

Gains and losses arising from a change in the fair value of the financial instrument, other than available-for-sale financial asset, are included in net profit or loss in the period in which it arises. Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognized in equity, until the investment is disposed of or is determined to be impaired, at which time the net profit or loss is included in the net profit or loss for the period.

**De-recognition**

A financial asset as a portion thereof is derecognised when the organization realizes the contractual rights to the benefits specified in the contract, the rights expire, the organisation surrenders those rights or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and the sum of the proceeds receivable and any prior adjustment to reflect the fair value of the asset that had been reported in equity is included in net profit or loss for the period.

A financial liability as a part thereof is derecognised when the obligation specified in the contract is discharged, cancelled, or expires. On derecognition the difference between the carrying amount of the financial liability, including related unamortized costs, and the amount paid for it is included in net profit or loss for the period.

The fair values at which the financial instruments are carried at the balance sheet date have been determined using available market values. Where market values are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values have been estimated using available market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the organisation could realize in the normal course of business. The carrying amounts of financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair value due to the short term trading cycle of these assets.

Financial assets and financial liabilities are offset if there is any intention to realise the asset and settle the liability simultaneously and a legally enforceable right to offset exists.

### 1.8 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities / (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the South African Revenue Services (SARS), using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit / (tax loss).

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting surplus nor taxable surplus / (tax deficit).

### 1.8 Tax (continued)

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:
- the parent, investor or venture is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be uitilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:
- is not a business combination; and
- at the time of the transaction, affects neither accounting surplus nor taxable surplus / (tax deficit)

A deferred tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that it is probable that:
- the temporary difference will reverse in the foreseeable future; and
- taxable surplus will be available against which the temporary difference can be utilized.

A deferred tax asset is recognised for the carry forward of unused tax deficit to the extent that it is probable that future taxable surplus will be available against which the unused tax deficit can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments plus any initial direct costs incurred. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease income is recognised as an income on a month to month basis.

# Accounting Policies

### 1.9 Leases (continued)

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, and then their costs are their value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realizable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value or current replacement cost, are recognised as a reduction in the number of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.12 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:
a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

### 1.13 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of a company after deducting all of its liabilities. Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

# Accounting Policies

### 1.14 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits is recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. The company's retirement benefit plan is managed by the parent municipality.

Payments made too industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.15 Provisions and contingencies

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Rental income is accrued on a time proportionate basis over the period of the lease agreement. Rental paid in advance is recognised as a liability in the statement of financial position.

Management fees paid by the City of Johannesburg Metropolitan Municipality to the company to manage the properties owned by the City of Johannesburg Metropolitan Municipality are recognised once the annual budget of the City of Johannesburg Metropolitan Municipality has been approved.

## Accounting Policies

### 1.16 Revenue from exchange transactions (continued)

Project implementation fees, which are paid by the City of Johannesburg Metropolitan Municipality to the company and other contractors to manage the construction of new housing projects, are recognised at various stages of project implementation. The fee is determined on the construction cost of the project that will be developed or partly developed in the financial year until the construction of the project is complete.

Provincial Government subsidies for projects undertaken by the Company are recognised when the Company incurs the cost of the project that is subsidized.

Interest income is accrued on a time basis, by reference to the principal outstanding, and at the effective interest rate applicable.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Interest and dividends**

Revenue arising from the use by others of company assets yielding interest and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the company; and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

# Accounting Policies

### 1.17 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### 1.18 Cash flow statement

The cash flow statement is prepared based on the direct method.

### 1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Irregular expenditure

Irregular expenditure in terms of MFMA refers to expenditure incurred by JOSHCO in contravention of, or that is not in accordance with, a requirement of the MFMA, the Municipal Systems Act, the Public Office Bearers Act, and Supply Chain Management policy of JOSHCO or any of the municipality's by-laws and which has not been condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalization of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programmer/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

# Accounting Policies

### 1.25 Budget information

The budget is approved by the sole shareholder, the City of Johannesburg Metropolitan Municipality, on the accrual basis by functional classification. The operational budget is prepared using the zero-based budget methodology and applies to the period relevant to the Medium-Term Expenditure Framework. The approved budget covers the fiscal periods 1 July 2014 to 30 June 2017.

JOSHCO presents a separate budget statement for public accountability. In the event of variances i.e. where actuals exceed the budgets by more than 1% of total revenue, reasons for such variances are noted on the budget statement.

### 1.26 Related parties

Transactions that are disclosed has related party transactions where JOSHCO has in the normal course of its operation, entered into transactions with entities related to COJ.

### 1.27 Presentation of currency

These annual consolidated financial statements are presented in South African Rand.

### 1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

### 1.29 Value Added Tax (VAT)

JOSHCO accounts for VAT on a payment basis in accordance with Section 15(2) of the VAT Act (Act 89 of 1991).

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 2. INVENTORIES

| | | |
|---|---|---|
| Consumable stores | 748 047 | 223 528 |

There was no inventory written down in both the current and prior years.

## 3. LOANS TO / (FROM) PARENT MUNICIPALITY

| | | |
|---|---|---|
| Sweeping account - Interest bearing | 83 887 796 | 144 936 164 |
| Interest on 'Non-Sweeping' Bank Accounts | 5 958 169 | 5 958 169 |
| Terms and conditions | | |
| | **89 845 965** | **150 894 333** |

The company did not default on any of the loans.

None of the terms attached to the intercompany creditors were re-negotiated.

**City of Johannesburg Metropolitan Municipality - Non-interest bearing**

**CAPEX loans**

Capex amount still outstanding from The City of Johannesburg Metropolitan Municipality.

**Sweeping account**

| | | |
|---|---|---|
| Loans at beginning of the year | 144 936 164 | 65 027 043 |
| Receipts | (61 048 368) | - |
| Advances | - | 79 909 121 |
| | **83 887 796** | **144 936 164** |

The City of Johannesburg has an arrangement with all its municipal owned entities (MOE's), that the bank accounts will be swept over night to the primary bank account of the City of Johannesburg, and the required amounts by the MOE's will be swept back to their accounts when requested. The account bears interest at repo rate, compounded daily.

Interest on the sweeping account is linked to the bank prime rate.

## 4. OPERATING LEASE ASSET / (ACCRUAL)

Operating lease liability represent rental payable by the company in respect of offices as a result of straight lining of lease payments over the lease term. The lease payments are payable monthly and lease payments are straight-lined over the period of the lease. The operating lease agreement was renegotiated for another 2 years commencing 01 November 2015 to 31 October 2017, with unit size increasing from 1 682sqm to 2 300sqm consequently increasing the base rent. There was no contingent rent on the operating lease. There are no restrictions imposed by the lease arrangement.

| | | |
|---|---|---|
| Current Liabilities | 54 436 | 73 985 |

## 5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

| | | |
|---|---|---|
| Trade debtors | 15 842 133 | 7 459 979 |
| Security deposits | 118 091 | 118 091 |
| Sundry debtors | 6 928 348 | 31 109 712 |
| Project debtors | 15 968 756 | 34 377 724 |
| Related party debtors | 156 182 022 | 169 430 886 |
| | **195 039 350** | **242 496 392** |

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 5. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

**Trade Debtors**

Trade debtors consist of the tenant rentals/levies receivable net of provision. These amounts are receivable as a result of binding lease agreements between JOSHCO and the tenants.

**Security deposits**

These deposits are held by the lessor of the operating leases for the rental JOSHCO Head Office.

**Sundry Debtors**

Sundry debtors consist of operating grants and VAT receivable in prior accounting periods.

**Project debtors**

Project debtors consist of the monies owed by provincial government.

**Petty Cash Advanced**

Petty cash advanced consist of amounts that have been advanced to staff from petty cash and the receipts where not yet submitted.

**Related party debtors**

Related party debtors also consist of tenant rentals/levies receivable and for which lease agreements are in place. These debts are however receivable from other Municipal Owned Entities in which the lessee is employed.

**Trade and other receivables past due but not impaired**

Trade and other receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2017, R7 025 244 (2016: R7 459 979) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|---|---|---|
| 1 month past due | 3 779 044 | 4 219 429 |
| 2 months past due | 3 246 200 | 2 905 867 |

**Trade and other receivables impaired**

As of 30 June 2017, trade and other receivables of R38 881 395 (2016: R31 496 831) were impaired.

**Reconciliation of provision for impairment of trade and other receivables**

| | | |
|---|---|---|
| Opening balance | 31 496 831 | 24 748 300 |
| Provision for impairment - Current year | 12 854 531 | 12 031 237 |
| Write offs of trade debtors amounts previously provided for | (5 469 967) | (5 282 706) |
| | **38 881 395** | **31 496 831** |

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 1 792 | 2 190 |
| Bank balances | 94 104 990 | 12 469 839 |
| | **94 106 782** | **12 472 029** |

The company's bank account is "swept" on a daily basis by the City of Johannesburg Metropolitan Municipality in order to facilitate efficient cash-flow management. Petty cash is reflected as being on hand. No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 6. CASH AND CASH EQUIVALENTS (continued)

**Credit quality of cash at bank and short-term deposits, excluding cash on hand**

The maximum exposure to credit risk is the carrying amount of the cash and cash equivalents as at the reporting date.

**The entity had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2017 | 30 June 2016 | 30 June 2015 |
| STANDARD BANK - Cheque - 197734-COJ CAPEX | 1 000 | - | 36 267 973 | 1 000 | - | 36 267 973 |
| STANDARD BANK - 197742-COJ JOSHCO | - | - | 1 886 336 | - | - | 1 886 336 |
| STANDARD BANK - 197750-COJ DEP ACCOUNT | 12 609 233 | 12 473 379 | 12 473 499 | 12 609 233 | 12 473 379 | 12 473 499 |
| STANDARD BANK - 197769-COJ JOSHCO FLEURHOF | 81 499 789 | - | 1 269 338 | 81 499 789 | - | 1 269 338 |
| STANDARD BANK - 197718-COJ JOSHCO CHARGES | (5 032) | (3 540) | (3 696) | (5 032) | (3 540) | (3 696) |
| STANDARD BANK - 197726-COJ JOSHCO Main | - | - | - | - | - | - |
| **Total** | **94 104 990** | **12 469 839** | **51 893 450** | **94 104 990** | **12 469 839** | **51 893 450** |

## 7. PROPERTY, PLANT AND EQUIPMENT

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment losses | Carrying value |
| Land | 177 799 | - | 177 799 | 177 799 | - | 177 799 |
| Leasehold property | 1 590 730 | (1 329 902) | 260 828 | 1 648 639 | (1 016 330) | 632 309 |
| Furniture and fixtures | 2 076 209 | (1 185 713) | 890 496 | 1 874 444 | (1 100 700) | 773 744 |
| Motor vehicles | 350 643 | (175 775) | 174 868 | 350 643 | (153 823) | 196 820 |
| Office equipment | 1 271 662 | (834 703) | 436 959 | 1 123 771 | (745 589) | 378 182 |
| IT equipment | 3 328 560 | (1 642 305) | 1 686 255 | 3 302 681 | (1 468 760) | 1 833 921 |
| Leasehold improvements | 3 470 094 | (2 946 453) | 523 641 | 3 175 850 | (2 534 707) | 641 143 |
| **Total** | **12 265 697** | **(8 114 851)** | **4 150 846** | **11 653 827** | **(7 019 909)** | **4 633 918** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Reconciliation of property, plant and equipment - 2017**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 177 799 | - | - | - | 177 799 |
| Leasehold property | 632 309 | - | (57 909) | (313 572) | 260 828 |
| Furniture and fixtures | 773 744 | 201 765 | - | (85 013) | 892 496 |
| Motor vehicles | 196 820 | - | - | (21 952) | 174 868 |
| Office equipment | 378 182 | 147 892 | - | (89 115) | 436 959 |
| IT equipment | 1 833 921 | 25 878 | - | (173 544) | 1 686 255 |
| Leasehold improvements | 641 143 | 294 244 | - | (411 746) | 523 641 |
| | **4 633 918** | **669 779** | **(57 909)** | **(1 094 942)** | **4 150 846** |

**Reconciliation of property, plant and equipment - 2016**

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Land | 177 799 | - | - | 177 799 |
| Leasehold property | 1 055 809 | - | (423 500) | 632 309 |
| Furniture and fixtures | 617 040 | 297 021 | (140 317) | 773 744 |
| Motor vehicles | 96 858 | 158 362 | (58 400) | 196 820 |
| Office equipment | 377 066 | 107 856 | (106 740) | 378 182 |
| IT equipment | 1 197 162 | 803 117 | (166 358) | 1 833 921 |
| Leasehold improvements | 132 314 | 626 322 | (117 493) | 641 143 |
| | **3 654 048** | **1 992 678** | **(1 012 808)** | **4 633 918** |

**The following leased assets are included in Property, Plant and Equipment listed above**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Leasehold Improvement | 3 470 094 | (2 946 453) | 523 641 | 3 175 850 | (2 534 707) | 641 143 |
| Leasehold property | 1 590 730 | (1 329 902) | 260 828 | 1 648 639 | (1 016 330) | 632 309 |
| **Total** | **5 060 824** | **(4 276 355)** | **784 469** | **4 824 489** | **(3 551 037)** | **1 273 452** |

**Details of property**

**Development Land (ERF 2083 Roodepoort Township)**
Terms and conditions: Land purchased for development

| | 2017 | 2016 |
|---|---|---|
| - Purchase price: 23 July 2009 | 177 799 | 177 799 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 8. INTANGIBLE ASSETS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortization and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortization and accumulated impairment | Carrying value |
| Computer software | 1 518 197 | (927 630) | 590 567 | 1 325 203 | (773 509) | 551 694 |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 551 694 | 190 885 | (152 012) | 590 567 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 263 053 | 338 146 | (49 505) | 551 694 |

### 9. INVESTMENT IN JOINT VENTURE

| Name of company | Listed / Unlisted | % holding 2017 | % holding 2016 | Carrying amount 2017 | Carrying amount 2016 |
|---|---|---|---|---|---|
| JOSHCO JV | | 55% | 55% | 24 138 411 | 24 192 489 |

The carrying amount of the joint venture has shown net surplus of R495 922 (2016: R-58 379)

**Principal activities and reporting dates of joint venture**

| Name of entity | Principal activity | Reporting date | Period of Results included |
|---|---|---|---|
| JOSHCO Madulamoho Joint Venture (JMJV) | 55% | 30/06/2017 | 1 July 2016 to 30 June 2017 |

The JMJV is an investment between JOSHCO and Madulamoho for social rental housing. The separate annual financial statements of the joint venture are available at the registered office of the entity. There are no contingent liabilities, contingent assets or commitments relating to the joint venture.

The joint venture's ability to distribute reserves is not restricted in terms of the joint venture agreement.

The JMJV has not been pledged as security.

**Reconciliation of Investment in Joint Venture**

| | 2017 | 2016 |
|---|---|---|
| Net asset value as at 30 June 2017 | 24 138 411 | 24 192 489 |
| Net asset value as at 1 July 2016 | (24 192 489) | (24 800 869) |
| | (54 078) | (608 380) |
| Surplus from investment in JV | (495 922) | 58 379 |
| **Fair value adjustment** | **(550 000)** | **(550 000)** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 10. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below. The amount reflected in the table below is net of any impairment:

| 2017 | Loans and receivables | Total |
|---|---|---|
| Loans to parent municipality | 89 845 965 | 89 845 965 |
| Receivable from exchange transaction | 195 039 650 | 195 039 650 |
| Cash and cash equivalents | 94 106 782 | 94 106 782 |
| | **378 992 397** | **378 992 397** |

| 2016 | Loans and receivables | Total |
|---|---|---|
| Loans to parent municipality | 64 075 671 | 64 075 671 |
| Receivable from exchange transaction | 37 078 725 | 37 078 725 |
| Cash and cash equivalents | 12 469 958 | 12 469 958 |
| | **113 624 354** | **113 624 354** |

### 11. DEFERRED TAX

| | | |
|---|---|---|
| **Deferred tax liability** | | |
| Other deferred tax liability - Leases | - | (177 047) |
| **Deferred tax asset** | | |
| Property, plant and equipment - Leased | 305 964 | 168 678 |
| Trade and other payables and provisions | 11 212 779 | 7 962 676 |
| | **11 518 743** | **8 131 353** |
| Deferred tax liability | - | (177 047) |
| Deferred tax assets | 11 518 743 | 8 131 353 |
| **Total net deferred tax asset** | **11 518 743** | **7 954 307** |

**Reconciliation of deferred tax asset \ (liability)**

| | | |
|---|---|---|
| At beginning of year | 7 954 307 | 6 548 995 |
| Movement in temporary differences | 1 121 129 | (665 601) |
| Income received in advance | 2 443 245 | 2 070 913 |
| | **11 518 743** | **7 954 307** |

### 12. BORROWINGS - DBSA

| | | |
|---|---|---|
| **At amortized cost** | | |
| Development Bank of Southern Africa | 15 910 991 | 16 652 653 |
| **Non-current liabilities** | | |
| Development Bank of Southern Africa | 15 105 447 | 15 910 991 |
| **Current liabilities** | | |
| Development Bank of Southern Africa | 805 544 | 741 662 |

JOSHCO has two loans from Development Bank of South Africa (DBSA) for the City Deep Housing Project for R7 821 487 and Roodepoort Social Housing Project for R11 732 231. The loan period is for twenty years bearing interest at a fixed interest rate of 8.5% per annum. The borrowing is repayable in 36 equal six monthly instalments totaling R1 070 913 with the last redemption date in March 2029.

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 13. FINANCE LEASE OBLIGATION

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within 1 year | 262 227 | 427 083 |
| - in 2 to 5 year (inclusive of finance charges) | - | 221 172 |
| | 262 227 | 648 255 |
| Less: Finance charges | (7 835) | (45 834) |
| **Present value of minimum lease payments** | **254 391** | **602 421** |
| **Present value of minimum lease payments due** | | |
| - within 1 year | 254 391 | 387 515 |
| - in 2 to 5 year | - | 214 906 |
| | **254 391** | **602 421** |
| Non-current liabilities | - | 214 907 |
| Current liabilities | 254 391 | 387 514 |
| | **254 391** | **602 421** |

The finance leases relate to the lease of office equipment. The average lease term ranges between 3 years and 5 years. The company did not default on any of the interest or capital repayments of the finance leases. Interest rates are linked to prime. All leases have fixed repayments and no arrangements have been entered into for contingent rent on the leased asset. The entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

### 14. PAYABLES FROM EXCHANGE TRANSACTIONS

| | | |
|---|---|---|
| Trade payables | 194 467 465 | 312 161 851 |
| Rental received in advance | 9 073 526 | 7 396 117 |
| Accrued leave pay | 1 641 136 | 1 903 091 |
| Accrued finance costs | 337 182 | 352 899 |
| Payroll Liabilities | 1 257 779 | 1 287 278 |
| Consumer deposit received | 12 243 419 | 11 659 832 |
| Provision | - | 30 008 460 |
| Related party creditors | 25 451 645 | 21 151 830 |
| | **244 472 152** | **385 921 358** |

### 15. PROVISIONS

| **Reconciliation of provisions - 2017** | **Opening Balance** | **Additions** | **Utilised/Paid during the year** | **Total** |
|---|---|---|---|---|
| Performance Bonus | 1 877 012 | 1 750 753 | (1 896 422) | 1 731 343 |

| **Reconciliation of provisions - 2016** | **Opening Balance** | **Additions** | **Utilised/Paid during the year** | **Total** |
|---|---|---|---|---|
| Performance Bonus | 1 507 977 | 1 750 754 | (1 381 719) | 1 877 012 |

### 16. VAT RECEIVABLE

| | | |
|---|---|---|
| VAT receivable | 3 470 746 | 2 803 778 |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 17. DEFERRED INCOME FROM NON-EXCHANGE TRANSACTIONS

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Capital Grant: City of Johannesburg Metropolitan Municipality | 113 461 682 | - |
| Gauteng Provincial Grant - JMJV | 22 892 415 | 23 807 180 |
| Local Government Grant - Roodepoort | 177 800 | 177 800 |
| | **136 531 897** | **23 984 980** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 23 984 980 | 74 857 480 |
| Additions / (Repayments) during the year | 79 085 108 | (49 958 507) |
| Income recognition and other adjustments during the year | 33 461 809 | (913 993) |
| | **136 531 897** | **23 984 980** |

| | | |
|---|---|---|
| Non-current liabilities | 135 617 904 | 23 070 987 |
| Current liabilities | 913 993 | 913 993 |
| | **136 531 897** | **23 984 980** |

**Gauteng Provincial Grant - JMJV**

The grant relates to funds received to finance the acquisition of the JMJV. Conditions are met as the operating lease is utilized and the revenue is recognized over the duration of the lease term.

**Local Government Grant - Roodepoort**

The Grant relates to funds received from the parent municipality for the purchase of land for the Roodepoort development. The grant is secured by land disclosed under property, plant & equipment. The funds will remain in liabilities until the asset is transferred to the City of Johannesburg Metropolitan Municipality.

### 18. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

**2017**

| | Financial liabilities at amortized cost | Total |
|---|---|---|
| DBSA loan | 15 105 447 | 15 105 447 |
| Payables from exchange transaction | 244 472 152 | 244 472 152 |
| Finance lease obligation | 254 391 | 254 391 |
| Current tax payable | 2 549 441 | 2 549 441 |
| Operating lease liability | 54 436 | 54 436 |
| | **262 435 867** | **262 435 867** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 18. FINANCIAL LIABILITIES BY CATEGORY (continued)

| 2016 | Financial liabilities at amortized cost | Total |
|---|---|---|
| DBSA loan | 15 910 991 | 15 910 991 |
| Trade and other payables | 385 921 358 | 385 921 358 |
| Finance lease obligation | 387 514 | 387 514 |
| Operating lease liability | 73 985 | 73 985 |
| | **402 293 848** | **402 293 848** |

### 19. SHARE CAPITAL

| | 2017 | 2016 |
|---|---|---|
| **Authorised** | | |
| 1000 Ordinary shares of R1 each or par value of 1000 | 1 000 | 1 000 |
| **Issued** | | |
| 120 Ordinary shares of R1 each | 120 | 120 |

### 20. REVENUE

| | 2017 | 2016 |
|---|---|---|
| Rendering of services | 9 272 579 | 8 620 252 |
| Rental facilities and equipment | 110 777 554 | 102 355 268 |
| Utility recoveries | 186 387 | 681 704 |
| Other Income | 751 381 | 1 719 577 |
| Bad debts recovered | - | 12 390 |
| Interest received - investment | 11 853 226 | 5 800 274 |
| Dividends received | 550 000 | 550 000 |
| Government grants & subsidies | 13 100 000 | 19 952 000 |
| Capital grants realised | 913 993 | 913 993 |
| | **147 405 120** | **140 605 458** |

**The amount included in revenue arising from exchanges of goods or services are as follows:**

| | 2017 | 2016 |
|---|---|---|
| Rendering of services | 9 272 579 | 8 620 252 |
| Rental facilities and equipment | 110 777 554 | 102 355 268 |
| Utility recoveries | 186 387 | 681 704 |
| Other Income | 751 381 | 1 719 577 |
| Bad debts recovered | - | 12 390 |
| Interest received - investment | 11 853 226 | 5 800 274 |
| Dividends received | 550 000 | 550 000 |
| | **133 391 127** | **119 739 465** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | 2017 | 2016 |
|---|---|---|
| **Taxation revenue** | | |
| **Transfer revenue** | | |
| Subsidy received from shareholder | 13 100 000 | 19 952 000 |
| Capital grants realised | 913 993 | 913 993 |
| | **14 013 993** | **20 865 993** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 21. GENERAL EXPENSES

| | | |
|---|---|---|
| Advertising | 2 489 172 | 2 775 748 |
| Auditors remuneration | 1 458 988 | 1 772 210 |
| Bank charges | 119 421 | 100 678 |
| Cleaning and gardening | 15 189 709 | 11 103 698 |
| Computer expenses | 45 217 | 367 573 |
| Project planning fees and consulting | 6 104 885 | 6 118 017 |
| Consumables | 275 029 | 189 238 |
| Entertainment | 212 288 | 247 076 |
| Equipment hire | 196 068 | (66 502) |
| Insurance | 708 516 | 739 253 |
| Conferences and seminars | 556 990 | 767 179 |
| Lease rentals on operating lease | 2 276 648 | 1 935 633 |
| Fuel and oil | 17 444 | 24 842 |
| Placement fees | 1 555 566 | 838 695 |
| Postage and courier | 1 040 939 | 767 325 |
| Printing and stationery | 685 534 | 539 255 |
| Protective clothing | 10 623 | 16 548 |
| Project maintenance costs | 24 658 306 | 25 695 383 |
| Royalties and license fees | 1 542 993 | 369 884 |
| Security (Guarding of municipal property) | 11 617 117 | 12 875 851 |
| Subscriptions and membership fees | 386 830 | 313 750 |
| Telephone and fax | 2 057 275 | 2 059 774 |
| Training | 1 399 920 | 1 136 186 |
| Electricity | 4 548 216 | 4 105 917 |
| Gas | 30 726 | 179 027 |
| Sewerage and waste disposal | 17 249 | 15 298 |
| Water and related services | 8 104 457 | 4 312 446 |
| Refuse | 572 111 | 432 941 |
| Levy | - | 81 560 |
| | **87 878 237** | **79 814 483** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 22. GOVERNANCE AND EMPLOYEE COSTS

| | | |
|---|---|---|
| Employee related costs: Salaries and wages | 26 538 980 | 24 911 621 |
| Employee related costs: Temporary staff | 1 121 796 | 3 026 302 |
| Bargaining council | 5 476 | 12 031 |
| Housing benefits and allowances | 31 780 | 161 339 |
| Overtime payments | 128 713 | 176 925 |
| Bonuses | 2 453 193 | 2 459 339 |
| Travel, motor car, accommodation, subsistence and other allowances | 961 961 | 1 147 233 |
| Directors remuneration | 2 544 342 | 1 548 920 |
| UIF | 180 179 | 166 929 |
| SDL | 345 927 | 329 202 |
| Leave pay provision charge | 189 877 | (294 921) |
| Pension fund contributions | 2 834 076 | 2 263 524 |
| Leave pay | 121 910 | 626 734 |
| Acting allowances | 247 997 | 174 796 |
| | **37 706 207** | **36 709 974** |

### 23. DIRECTORS REMUNERATION

| | | |
|---|---|---|
| **Non-Executive Directors** | | |
| Ms. Z Jacobs | 207 391 | 158 412 |
| Prof. B Twala | 213 715 | 17 466 |
| Mr. D James | 65 684 | 54 265 |
| Mr. J Chauke | 87 046 | 71 605 |
| Mr. E Neluvhalani | 91 674 | 23 318 |
| Ms. N Twala | 42 640 | 23 272 |
| Ms. B Majola | 87 046 | 113 747 |
| Ms. T Sethaelo | 16 289 | 131 001 |
| Ms. N Tshabalala | - | 10 019 |
| Mr. T Motloung | 124 644 | - |
| Dr. L Matlhape | 283 054 | 147 014 |
| Ms. G Sengoara | 16 289 | 98 739 |
| Mr. S Mhlongo | 80 709 | - |
| Mr. M Oliphant | 242 972 | 123 372 |
| Mr. M Molefi | 120 068 | - |
| Mr. T Mlangeni | 68 589 | - |
| Dr. D W Thwala | 16 289 | 92 408 |
| Ms. N Nyembe | 80 709 | - |
| | **1 844 808** | **1 064 638** |

| | | |
|---|---|---|
| **Audit Committee Members** | | |
| Mr. H Moolla | 381 804 | 275 369 |
| Mr. R Hill | 226 260 | 137 289 |
| Ms. Mosweu | - | 65 749 |
| Ms. L Zabala | 91 467 | 5 875 |
| | **699 531** | **484 282** |

Directors remuneration includes an accrued retainer fee.

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 24. EXECUTIVE AND SENIOR MANAGERS SALARIES

| | | |
|---|---|---|
| **Executive Director - Mr. A Ngcezula #** | | |
| Annual Remuneration | 583 722 | - |
| **Executive Director - Mr. R Gallocher** | | |
| Annual Remuneration | - | 958 804 |
| Performance Bonus | - | 173 381 |
| | - | **1 132 185** |
| **Executive Director - Mr. S Marota** | | |
| Annual Remuneration | 1 220 330 | 1 057 958 |
| Performance Bonus | 156 274 | |
| Travel Allowance | 100 223 | 82 924 |
| | **1 476 827** | **1 140 882** |
| **Executive Managers** | | |
| Ms. C Holmes | 1 279 514 | 1 120 333 |
| Ms. P Ngwasheng | 1 084 903 | 925 550 |
| Mr. G Randal | - | 530 385 |
| Ms. C Nkosi | - | 674 203 |
| Ms. M Nkopane (was acting as CEO for 8 months during the financial year) | 1 434 020 | 1 163 492 |
| Ms. B Laka # | 423 455 | - |
| Mr. P Maseko | 917 767 | 77 222 |
| | **5 139 659** | **4 491 185** |

# Appointed

### 25. OTHER HOUSING MANAGEMENT COSTS

| | | |
|---|---|---|
| **The following amounts relate to project costs incurred at various projects:** | | |
| Bad Debts | 7 384 565 | 7 095 333 |
| Bad Debts Written off | 5 469 967 | 5 282 706 |
| Collection Fees | 672 969 | 749 760 |
| Community Development | 239 809 | 1 424 288 |
| | **13 767 310** | **14 552 087** |

### 26. INVESTMENT REVENUE

| | | |
|---|---|---|
| **Dividend received** | | |
| JMJV | 550 000 | 550 000 |
| **Interest received** | | |
| Bank interest | 6 018 527 | 3 588 572 |
| Interest earned - Outstanding debtors | 5 834 699 | 2 211 702 |
| | **11 853 226** | **5 800 274** |
| | **12 403 226** | **6 350 274** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 27. DEPRECIATION AND AMORTISATION

| | | |
|---|---|---|
| Property, plant and equipment | 1 094 947 | 1 012 810 |
| Intangible assets | 154 120 | 49 505 |
| | **1 249 067** | **1 062 315** |

### 28. FINANCE COSTS

| | | |
|---|---|---|
| Interest paid - DBSA Loan | 1 384 448 | 1 448 662 |

### 29. TAXATION

**Major components of the tax expense**

| | | |
|---|---|---|
| **Current** | | |
| Local income tax - current period | 2 884 714 | 2 341 142 |
| **Deferred** | | |
| Originating and reversing temporary differences | (3 564 438) | (1 405 312) |
| | **(679 724)** | **935 830** |

**Reconciliation of the tax expense**

| | | |
|---|---|---|
| Net surplus / (deficit) for the year | 4 029 924 | 4 790 923 |
| Taxation | | |
| - Normal | 2 884 714 | 2 341 142 |
| - Deferred | (3 564 438) | (1 405 312) |
| | (679 724) | 935 830 |
| **Effective tax rate (%)** | 28.00% | 28.00% |

### 30. CONTRACTED SERVICES

| | | |
|---|---|---|
| Contracted services | 1 335 429 | 1 375 867 |

Amounts included in contracted services relate to IT services, recruitment agencies and investigation services

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 31. CASH/ (USED IN) GENERATED FROM OPERATIONS

| | | |
|---|---|---|
| Surplus/ (deficit) | 4 659 468 | 4 097 861 |
| **Adjustments for:** | | |
| Depreciation and amortization | 1 249 067 | 1 062 315 |
| Loss on disposal of assets | 50 600 | - |
| Surplus / Loss from equity accounted investments | (495 922) | 58 379 |
| Fair value adjustments | 550 000 | 550 000 |
| Movements in operating lease assets and accruals | (19 549) | 52 831 |
| Movements in provisions | (145 669) | 369 034 |
| Movement in tax receivable and payable | (679 724) | 2 341 142 |
| Annual charge for deferred tax | | (1 405 312) |
| **Changes in working capital:** | | |
| Inventories | (524 519) | (50 416) |
| Receivables from exchange transactions | 47 457 042 | 4 699 312 |
| Payables from exchange transactions | (141 449 206) | 86 289 611 |
| VAT | (666 968) | (1 525 405) |
| Deferred income from non-exchange transactions | 112 547 007 | (50 872 500) |
| | **22 531 627** | **45 666 852** |

## 32. TAX RECEIVABLE (PAYABLE)

| | | |
|---|---|---|
| Balance due (to) / from at beginning of the year | 335 273 | 735 726 |
| Current tax for the year recognized in surplus / deficit | 679 724 | (2 341 142) |
| Deferred tax adjustments | (3 564 438) | 1 940 689 |
| **Balance due (to) / from at end of the year** | **(2 549 441)** | **335 273** |

## 33. COMMITMENTS

**Commitments in respect of Capital expenditure:**

| | | |
|---|---|---|
| **Authorised and contracted for** | | |
| • Investment properties | 873 001 770 | 94 335 864 |

**Operating leases - as lessee**

**(Buildings): Minimum lease payments**

| | | |
|---|---|---|
| **due** | | |
| - within one year | 744 403 | 2 165 535 |
| - within 2 to 5 years | - | 744 403 |

Operating lease payments represent rentals payable by the company for its Head office premises. The current lease is expiring in October 2017. Management is negotiations to extend the lease.

## 34. CONTINGENCIES

JOSHCO is currently involved in various legal disputes against it. The company in consultation with its legal counsel has assessed the likelihood that these cases are not likely to be in the company's favour. Following this assessment, the company's management has determined that no provision is required in respect of these legal disputes as at 30 June 2017.

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 35. RELATED PARTIES

Relationships:

| | |
|---|---|
| Shareholder | City of Johannesburg Metropolitan Municipality |
| Other members of the group | City Power Johannesburg SOC Ltd<br>Johannesburg Water SOC Ltd<br>Pikitup Johannesburg SOC Ltd<br>Johannesburg Roads Agency SOC Ltd<br>Johannesburg Metropolitan Bus Services SOC Ltd<br>Johannesburg City Parks and Zoo NPC<br>Johannesburg Development Agency SOC Ltd<br>Johannesburg Property Company SOC Ltd<br>The Johannesburg Fresh Produce Market SOC Ltd<br>Johannesburg City Theatres SOC Ltd<br>Metropolitan Trading Company SOC Ltd<br>Joshco JM/JV |

**Related party balances:**

| | 2017 | 2016 |
|---|---|---|
| **Trade and other receivables** | | |
| City of Johannesburg Metropolitan Municipality | 245 931 801 | 169 364 408 |
| Pikitup Johannesburg SOC Ltd | - | 16 247 |
| Johannesburg Fresh Produce Market SOC Ltd | - | 7 202 |
| City Power Johannesburg SOC Ltd | 53 536 | - |
| Johannesburg City Theatres SOC Ltd | 3 992 | - |
| Johannesburg Metropolitan Bus Services SOC Ltd | 38 708 | 43 029 |
| | **246 028 037** | **169 430 886** |
| **Trade and other payables** | | |
| City of Johannesburg Metropolitan Municipality | 24 508 867 | 21 134 190 |
| Johannesburg Civic Theatres SOC Ltd | - | 17 640 |
| | **24 508 867** | **21 151 830** |

**Related party transactions:**

| | 2017 | 2016 |
|---|---|---|
| **Revenue** | | |
| City of Johannesburg Metropolitan Municipality | 28 391 106 | 32 160 823 |
| **Expenditure** | | |
| City of Johannesburg Metropolitan Municipality | (1 543 212) | (1 263 690) |
| Johannesburg City Theatres SOC Ltd | (23 598) | (15 473) |
| Pikitup Johannesburg SOC Ltd | (560 031) | (287 757) |
| City Power Johannesburg SOC Ltd | (3 358 063) | (2 750 446) |
| Johannesburg Water SOC Ltd | (11 707 056) | - |
| Johannesburg Property Company SOC Ltd | - | (7 403 326) |
| | **(17 191 960)** | **(11 720 692)** |

## 36. RISK MANAGEMENT

### Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, in order to provide returns for shareholder and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

### Financial risk management

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The company is a wholly owned subsidiary of the City of Johannesburg Metropolitan Municipality. Risk management is carried out by a central treasury department within the Metro Municipality (City treasury) under policies approved by the City's Assets & Liability committee of which the company's CFO is part. City treasury identifies and evaluates financial risks in close cooperation with ALCO. ALCO provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk.

### Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities. The company also receives an annual subsidy from the City of Johannesburg Metropolitan Municipality which mitigates to a large extent the liquidity risk of the company.

### Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

The entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the entity to fair value interest rate risk.

During 2017 and 2016, the entity's borrowings of R15,910,991 from the Development Bank of Southern Africa, at fixed rate of 8.5% and the loan is denominated in the South African Rand.

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, intercompany debtors and other receivables. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The company services the widespread public of the metropolitan area. The company is therefore exposed to credit risk. The company is exposed to credit risk as a result of the following: transactions entered into with the public on extended payment terms and long term loans with the City of Johannesburg Metropolitan Municipality. These customers may not be able to produce cash on demand and the company manages these risks by independent checks on the credit quality of debtors and giving long term loans only to City of Johannesburg Metropolitan Municipality in terms of approved policy and credit terms. No changes occurred in the management of these risks from the prior year.

The company policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on surplus / (deficit). The company's interest rate risk arises from interest bearing borrowings and financial service assets. Borrowings issued at floating rates expose the company to cash flow interest rate risk, while fixed rate borrowings expose the company to fair value interest rate risk. As part of the process of managing the company's fixed and floating rate borrowings mix, the interest rate characteristics of new borrowings and refinancing of existing borrowings are positioned according to expected movements in interest rates.

# Notes to the Financial Statements



## 36. RISK MANAGEMENT (continued)

Financial assets exposed to credit risk at year end were as follows:

| **Financial instrument** | **2017** | **2016** |
|---|---|---|
| Trade and other receivables | 35 257 666 | 35 361 526 |
| Loans to parent municipality | 284 885 615 | 244 651 198 |

## 37. EVENTS AFTER THE REPORTING DATE

There were no reportable events after the reporting date that were not addressed in this report.

## 38. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Management was not aware of any incidents of unauthorized, irregular and fruitless and wasteful expenditure during the financial year.

## 39. ASSETS SUBJECT TO RESTRICTIONS

There are no assets recognized in JOSHCO that are subject to restrictions.

## 40. BUDGET DIFFERENCES

**Material differences between budget and actual amounts**

In terms of entity policy, variances in excess of R1.5 million (i.e. 1% of total revenue) must be reported and supported with explanations. The following reasons apply to material variances:

- Total revenue was ahead of budget by 2% (R147.4 million vs R144.5 million) mainly due interest received from a positive bank balance throughout the financial year.
- General expenses were over expended mainly due bad debts written-off amounting to R5.5 million as the debts were uneconomical to pursue them legally, some were untraceable former tenants and deceased tenants. The collection levels during the financial year were 1% lower than targeted and contributed to an increase in the provision for bad debts.

**Changes from the approved budget to the final budget**

The changes between the approved and final budget are as a result of additional interest income from a positive bank balance. As a consequence of additional revenue, budgeted expenditure was also increased accordingly.

## 41. PRIOR PERIOD ERROR

JOSHCO's classification of expenditure on the statement of financial performance is based on the nature of these expenses. Repairs and maintenance has been reclassified into general expenses as it is a function of expenditure instead of the nature thereof.

**Statement of financial performance**

| | |
|---|---|
| JOSHCO - General Expenses | 50 056 522 |
| JOSHCO - Repairs and maintenance | (50 056 522) |

Adjustment to opening balances of property, plant, equipment and intangible assets were done as a result of assets discovered in the current year that were previously not included on the asset register.

**Statement of financial position**

| | |
|---|---|
| JOSHCO - Property, plant and equipment | 192 090 |
| JOSHCO - Intangible assets | 172 957 |
| JOSHCO - Accumulated surplus | (365 047) |

**Statement of financial performance**

| | |
|---|---|
| JOSHCO - Accumulated Surplus | 365 047 |
| JOSHCO - General Expenses | (365 047) |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 42. DEVIATIONS FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

In terms of Regulation 36 (2) of the Municipal Supply Chain Regulations, the accounting officer must record the reasons for any deviations in terms of sub-regulation (1) (a) and (b) and report them to the next meeting of the board of directors, and include as a note to the annual financial statements.

**Emergency**

The following deviation was due to an emergency as per regulation 36 (1)(i) of the municipal supply chain management regulations.

| Name of service provider | Description of minor breach | 2017 | 2016 |
|---|---|---|---|
| Joe Malherbe Attorneys | Contractual dispute with a contractor at 80 Plein Street. JOSHCO's panel of attorneys did not have a construction expert. | 873 159 | - |
| | | **873 159** | **-** |

**Ratification of minor breaches of procurement and other breaches**

Deviations and ratifications from the normal procurement processes in terms of regulation 36 (1)(a)(v) and (b) of the municipal supply chain management regulations.

| Name of service provider | Description of minor breach | 2017 | 2016 |
|---|---|---|---|
| Lumacon Air Conditioning | Repair of heat-pumps in Fleurhof Housing Estate | - | 56 948 |
| Mthimkhulu Stone Works CC | Extension of Contract Period: Driver-Courier Services | - | 101 837 |
| Jolobe Trading | Extension of CSA contracts for Jozi@Work | - | 406 080 |
| Gochi Trading | Extension of CSA contracts for Jozi@Work | - | 413 280 |
| VZ Contractor | Extension of CSA contracts for Jozi@Work | - | 533 040 |
| Exclusive People | Extension of the Leasing Manager's contract | - | 45 996 |
| The Leadership magazine | Publication about JOSHCO. | - | 44 460 |
| OTIS Elevators | Maintenance of lifts at the Chelsea project. | - | 129 175 |
| Delta-Link (Mfiles) | Migrating files/data between servers | - | 16 436 |
| Futshane Consulting | Year-end tax consultancy to complete SARS audit | 21 450 | - |
| Face of the Earth foundation | City Deep - Community vocational work program | 40 969 | - |
| Eller Security Services | Extension of security contract to finalise the procurement | 339 732 | - |
| Ingwempisi Security Services | Extension of security contract to finalise the procurement | 459 246 | - |
| Kya Guards Security Services | Extension of security contract to finalise the procurement | 212 792 | - |
| Datacol T/a SSG Systems | Extension of the IT support contract to finalise procurement | 39 900 | - |
| PC Plug | SAGE standard reports | 12 777 | - |
| Accotech Interim Outsourcing | Extension of contracted services for temporary employee | 16 192 | - |
| | | **1 143 058** | **1 747 252** |